RATING REPORT

JK Sugar Mills (Pvt.) Limited

REPORT DATE:
April 27, 2023

RATING ANALYSTS:

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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	BBB	A-2
Rating Outlook	*Stable*	
Rating Action	Initial	
Rating Date	*April 27, 2023*	

COMPANY INFORMATION	
Incorporated in 2017	**External auditors:** Riaz Ahmad, Saqib, Gohar & Co Chartered Accountants.
Public Limited Company (Unquoted)	**CEO:** Ms. Seher Tareen Khan
Key Shareholders (with stake 5% or more):	
Mr. Ali Khan Tareen – 48.59%	
JK Dairies (Pvt.) Ltd. – 16.90%	
ATF Mango Farms (Pvt.) Ltd. – 9.29%	
Mrs. Mariam Tareen Sethi – 8.23%	
Ms. Seher Khan Tareen– 7.88%	
Mrs. Meher Khan Tareen – 7.84%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

JK Sugar Mills (Pvt.) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

JK Sugar Mills (Pvt.) Limited was incorporated as Private Limited Company on April 13, 2017 under the repealed Companies Ordinance 1984 (now the Companies Act, 2017). Registered office of the company is located at Bahria Town Tower, 172/2 PECHS, Main Tariq Road, Karachi.

JK Sugar Mills (Pvt.) Limited (JKSML) is principally involved in production and sale of sugar and allied products. The shareholding of the company is vested with family members and associated concerns. The assigned ratings factor in association of the company with JDW group having sound financial strength and extensive experience in the sugar industry. JKSML has cordial relationship with growers underpinned by timely payments and financial support in form of relaxed credit limits and agri loans. The company commenced operations in MY18. The company was incorporated in 2017 and subsequently acquired two sugar mills over a span of 1.5 years while started commercial operations in MY18. Around four-fifth of the acquisition cost was financed by syndicate long-term financing. Financial risk profile of the company has remained high marked by elevated leverage indicators despite sizeable equity injection and profit retention. A negative capital reserve was recognized in MY19 in lieu of merger with its associated firm which acquired one of the mill's unit, and accumulated losses in the early years of operations. Given high finance cost burden during the initial years of operations and accumulating losses, financial restructuring was undertaken in Sep'2021. According to new terms and agreements, the restructured loans will be fully retired after 10 years from the date of restructuring. The pricing on loans was also revised down and the repayments were structured as stepped-up payments.

During the outgoing year, the company reported modest growth in topline with some improvement in gross margins largely on account of better sucrose recovery rates and economies of scale. However, net margins declined as around 20% of the stock remained unsold during the outgoing year and due to the impact of substantial increase in average markup rates leading to elevated finance cost. Leverage indicators remained very high while liquidity and coverages have considerable room for improvement. The management contemplates improvement in profitability on the back of higher sugar prices and recovery rates along with some increase in volumetric sales in the ongoing year. Inventory gains emanating from selling carried over sugar stocks at higher rates would also positively impact the profitability profile. Additionally, leverage indicators are projected to improve on account of growth in equity base led by profit retention and additional equity injection, along with decrease in short-term borrowings due to offtake of sugar inventory by the end-MY23. Nonetheless, achieving the same amidst strenuous economic conditions marked by high inflation, political unrest and external factors seems challenging. Profit margins may improve at the gross level while inflated markup rates are likely to put drag on the bottom line. Improvement in capitalization and liquidity indicators while realizing projected growth in revenues and profitability will remain key rating sensitivities.

Key Rating Drivers

Business Risk & Sector Update: Pakistan is the seventh-largest producer and the fifth-largest consumer of sugar. According to the Economic Survey of Pakistan, sugar industry is the country's second-largest agro-based business after the textile industry. In terms of sugarcane production, Punjab produces 67% of the sugarcane, followed by Sindh (25%), Khyber Pakhtunkhwa (KPK) (8%), and Baluchistan (less than 1%). Its production contributes 0.8% to GDP and 3.7% to agriculture's value addition. The country has the capacity to raise production by 4.0 million tons and export USD 2.0b worth of sugar and USD 500m worth of ethanol by using the same land but raising yields by 40 to 50 percent. According to the data collected by Ministry of Food Security, through September 30, 2022, at least 5.3 million metric tons (MT) of sugar has been removed from inventories or has been consumed. The volume of sugar consumed each day is around 15,980 tons. More than 1.7m MT surplus sugar was available at the start of crushing season MY23. Additionally, exporting this surplus sugar would have generated USD 1.0b in foreign currency. During CY22, almost 33% of the 22 million hectares of total cultivable land were inundated by flood while damage to the sugarcane crops resulted in a loss of USD 273m. On aggregate, direct losses from rice, cotton, and sugarcane were USD 1.30b (rice: USD 543m, cotton: USD 485m, and sugarcane: USD 273m).

The inherent cyclicality in crop yields and raw material prices is believed to have a substantial impact on the business risk profile of the sugar sector. Furthermore, there is a noticeable difference in pricing mechanisms, with the price of the end product, granulated sugar, being set by market forces whereas sugarcane cost being regulated by the government. A typical sugarcane crop has a 3- to 5-year production cycle, with government assistance to farmers and crop productivity playing a major role. In 2022-23 season, the crushing season took off a bit late owing to disagreement between PMSA, which represents the sugar mill owners, and Government of Pakistan, to allow export of 2 million tons of sugar, to cover up for the higher costs associated with producing sugar and pulling the industry out of crisis.

According to the most recent USDA semi-annual sugar report published on October 3, 2022, due to the damage brought on by the flood, the estimated harvested area is to contract by 4.7% to 1.23 million hectares. As a result, the forecast for sugarcane output in 2022–2023 has decrease to 82.4 million tons (2021-22: 89 million tons-2020-21: 81 million tons). Sugar output in 2022–2023 is predicted to be reduced to 7.0 million metric tons (MT); a 4% reduction in production. Meanwhile, due to population growth and demand from the developing food processing industry, sugar consumption is projected to rise by around 3% to 6.1 MT in 2022–2023. In view of accumulating sugar stocks, the Govt. has so far allowed 250,000 tons of sugar in the ongoing year.

Company's Introduction: The company started its operations with acquisition of assets of Imperial Sugar Mills Limited, located at Vehari Road Kacha Khoo, Mian Channu, District Khanewal, Punjab, which was named JK-I (Unit-I). AKT Sugar Mills (Pvt.) Ltd. (AKSML), a wholly-owned company of the same sponsors acquired the assets of Gulf Sugar Mills (Pvt.) Ltd. For the second unit (JK-II), AKSML got merged into JKSML as approved by Lahore High Court on Oct 3, 2019. Both of these units, i.e., JK-I and JK-II, were acquired within a span of 1.5 years while the acquisition was financed by long-term loans of Rs. 4.48b (Syndicate Loan (SL)-I) and Rs. 8b (Syndicate Loan (SL)-II) for unit I and II, respectively, and the remaining expenditure was financed through equity. In MY18, the company obtained an additional loan of Rs. 1.2b to finance a major balancing, modernization and replacement (BMR) of JK-I. The sponsors initially injected equity of Rs. 2.12b in form of share capital, sponsors loan and share deposit money and over the years the share capital raised by the company has augmented to Rs. 8.67b by March 2023. The company also recognized a negative capital reserve amounting Rs. 3.62b arising out of the merger transaction executed in 2019. Due to higher finance cost burden during the initial years of operations, accumulated losses, the company got its long-term borrowings restructured on Sep 29, 2021 to provide some room for growth. The financing facilities had initially a payback period of 8 years including grace period of 1.5 to 2 years, with markup at rate of 3M KIBOR plus 1.25% and with fixed equal installments. According to the original terms and conditions of the agreement SL-I, SL-II and BMR loan were to be expired on Aug 26, 2026, Dec 31, 2026, and Jan 20, 2026, respectively. However, according to new terms and agreements these loans will expire after 10 years from the date of restructuring. The pricing on loans was also revised down to 3M KIBOR plus 0.75% and the repayments were structured as stepped-up payments.

Operations Update: The company's cumulative installed sugarcane crushing capacity of all two units, stands at 14,000 MT per day. Crushing season 2021-22 started on November 15, 2022 in the company's units located in Punjab, and on November 21, 2022 in Sindh. Total cane crushed amounted to 3.2m MT (MY21: 2.4m MT; MY20: 2.1m MT). During the 2021-22 crushing season, the mill remained operational for 139 days (MY21: 124 days; MY20: 113 days) in line with higher cane availability. The company has maintained relatively good sucrose recovery ratio on a timeline basis emanating from better crop availability from its mill gate area, which accounts for nearly 80% of the cane procurement, coupled with regular balancing, modernization and replacement (BMR). Resultantly, sugar production was recorded higher at 324.7K tons (MY21: 222.4K tons; MY20: 211.2K). Molasses production increased to 156.8K MT (2020-21: 110.4K MT; 2019-20: 92.8K MT) yielding a recovery rate of 4.74% (2020-21: 4.67%; 2019-20: 4.45%).

The ongoing crushing season 2022-23, began on Nov 25, 2022 in Punjab and on Nov 29, 2022 in Sindh. As per management, the impact of floods on both of the units was minimal. Average sucrose recovery rates have been higher than the preceding year owing to healthy recovery rates in JK-II underpinned by improved quality of crops and the impact of BMR conducted during the last two years. Average sucrose recovery rate for the season improved notably to 10.74%. The crushing season in JK-I has been concluded on Mar 8, 2023 while crushing in JK-II lasted till Mar 15, 2023. During 2022-23, sugar production decreased by 8.6% mainly owing to disruption in cane supply due to floods and decrease in yield per acre. Please note that the crushing capacities of unit-I and II were regularized in January 2023 in terms of section 11 of the Punjab industries (Control on Establishment and Enlargement) (Amendment) Act, 2022. The company has paid a requital fee amounting Rs. 140m in lieu of this regularization. The revised crushing capacities will be reported in the audited financials of MY23. The production related information for four crushing seasons is tabulated below:

Crushing Season	**2019-20**	**2020-21**	**2021-22**	**2022-23**
	Sugarcane			
Capacity per day (MT)	14,000	14,000	14,000	14,000
Crushing Period (days)	113	113	139	107
Total Crushing Capacity (MT)	2,100,000	2,100,000	2,100,000	2,100,000
Cane Crushed (tons)	2,086,693	2,363,129	3,234,844	2,762,646
Percentage of Capacity Attained	99%	113%	154%	132%
Sucrose Recovery	10.12%	9.55%	10.04%	10.74%
Sugar Production (tons)	211,231	222,430	324,719	296,746
Molasses Produced (tons)	92,833	110,382	156,778	118,692
Molasses Recovery	4.45%	4.67%	4.85%	4.30%

Property, plant and equipment (PP&E) stood lower at Rs. 14.9b (MY21: Rs. 15.7b; MY20: Rs. 16.7bb) primarily on account of depreciation charge and transfer of a freehold land worth Rs. 133.1m to the investment property. The current power requirement of the company stands at around 22 MW which is entirely met through in-house power generation through bagasse fueled engines. The generators installed at unit-I has rated capacity of 16 MW while unit-II captive power engines have generation capacity of 24 MW.

Sales and Profitability: JKSML sell crystalline sugar and other by-products in the open market and to institutional clients. Previously, the corporate sales remained largely limited to Utility Stores Corporation, meanwhile, during the last two years, the company remained focused on expanding its corporate base clients due to better rates. In addition, improved quality of sugar underpinned by extensive BMR also helped the company to grow its customer base. In MY22, JKSML also marketed its packaged sales under the brand of 'ATF' at various departmental stores and online grocery stores. The proportion of corporate sales to net sugar sales amounted to 29% (MY21: 25%; MY20: 16%) in the outgoing year.

During MY22, the company posted modest growth in net revenues to Rs. 23.1b (MY21: Rs. 22.5b; MY20: Rs. 15.3b), as compared to ~47% growth in the preceding year, driven by 18% increase in volumetric sales along with 22% increase in average selling prices of sugar. Meanwhile, in MY22, quantity sold of sugar increased by merely 4% which was somewhat offset by ~5% decrease in average sugar prices. Gross sugar sale amounted to Rs. 21.8b (MY21: Rs. 22.2b; MY20: Rs. 15.5b) which accounted for 82.2% (MY21: 85.8%; MY20: 87.0%) of the total sales during MY22. Molasses sales were recorded higher at Rs. 3.1b (MY21: Rs. 2.3b; MY20: Rs. 1.5b), with a contribution of ~12% (MY21: 9.1%; MY20: 8.5%) in the revenue mix. Growth in molasses sales was led by ~42% increase in its quantity sold while average rates were lower by 6% relative to that in the preceding year. Proceeds from bagasse sales amounted to Rs. 588.5m (MY21: Rs. 530.7m; MY20: Rs. 147.0m); after meeting the feedstock requirement for captive generators, the company has left with around 28% of the bagasse to be sold in market. Agri inputs sales were recorded higher at Rs. 822.1m (MY21: Rs. 657.6m; MY20: Rs. 563.9m). These include fertilizers, seeds, agri implements sold to farmers. Average selling prices during the ongoing year reflected an upward trend owing to inflationary pressure. Breakdown of sales of sugar and molasses on a timeline basis is presented below:

	MY20		**MY21**		**MY22**		**HY'23**	
(In Metric Tons.)	Volume (MT)	Avg. S. Price Rs. /MT	Volume	Avg. S. Price Rs. /MT	Volume	Avg. S. Price Rs. /MT	Volume	Avg. S. Price Rs. /MT
Sugar (Local)	*217,223*	*71,016*	*256,955*	*86,382*	*266,418*	*81,781*	*196,588*	*89,741*
Sugar (Export)	-	-	-	-	-	-	4,484	171,733
*Molasses Sold**	92,833	15.970	110,382	21,163	156,778	19,837	37,351	26,500

**Average prices are net of sales tax*

During MY22, the company generated Rs. 2.8b (MY21: 2.6b; MY20: Rs. 1.4b) in gross profits while gross margins increased to 12.3% (MY21: 11.7%; MY20: 9.3%). Despite decrease in average selling prices vis-à-vis preceding year, gross margins improved due to economies of scale and better recovery rates. In addition, per maund average rates of cane increased modestly to Rs. 253 (MY21: Rs. 250; MY20: Rs. 215) due to bumper crop available in the outgoing season. Administrative expenses were recorded notably lower at Rs. 178.9m (MY21: Rs. 447.5m; MY20: Rs. 328.6m) as the company has not paid salaries to its directors in accordance with the loan restructuring agreement signed with banks. Other income was reported lower at Rs. 77.7m (MY21: Rs. 363.3m; MY20: Rs. 135.3m) and largely included profit on bank deposits and scrap sales. Meanwhile, in MY21, higher other income was due to the impact of gain recognized to the tune of Rs. 302.6m on account of restructuring of loans under IFRS-9 'Financial Instruments'. Accordingly, in subsequent year, the company charged an unwinding of Rs. 69.9m on the loan which has reduced the impact of the IFRS-9 recognized last year, whereby, the financial liability has increased with the same amount. Other expenses included only Workers Profit Participation Fund contributions. Finance cost augmented to Rs. 2.4b (MY21: Rs. 1.6b; MY20: Rs. 2.3b) owing to surge in average markup rates. Resultantly, profit after tax was recorded substantially lower at Rs. 101.5m (MY21: Rs. 736.3m; MY20: Rs. (748.2)m) with decline in net margin to 0.4% (MY21: 3.3%; MY20: n.m.).

The management projects considerable growth in topline in MY23 on the back of around 45% increase in quantity sold along with 35% increase in average selling prices. As per management, the volumetric growth is majorly expected to be driven by higher institutional sales. In addition, the company has been allowed a quota to export 2,985 MT sugar on the basis of MY21's production in unit-I as advised by Government of Punjab while for unit-II, an export quota of 1,500 MT has been allowed by Sindh Government. Gross margins are also expected to improve notably to 24% on account of the impact of lower cost carry over stock, higher sucrose recovery rates and higher average selling prices. In addition to inflationary impact on sugar rates, export sales and corporate sales also fetch premium prices. Resultantly, despite around 2x increase in finance cost, net margins are projected to increase to ~8%. Nonetheless, economic uncertainties and political unrest pose a looming threat to the overall industrial growth in at least short term.

Liquidity Profile: As a result of thin net margins, cash flow position in relation to its outstanding obligations has remained stressed on a timeline basis. Funds from operations (FFO) decreased to Rs. 1.3b (MY21: Rs. 1.6b; MY20: Rs. (50.9)m) in line with lower profitability in MY22. This, along with elevated debt levels led to decrease in FFO to total debt to 0.08x (MY21: 0.11x; MY20: n.m.). Debt service coverage ratio decreased slightly to 1.10x (MY21: 1.21x; MY20: 0.87x) due to lower FFO and higher finance cost paid during the outgoing year. The company repaid long-term loans amounting Rs. 1.0b (MY21: Rs. 1.0b; MY20: Rs. 263.2m) during MY22.

Stock in trade stood notably higher at Rs. 4.3b (MY21: Rs. 399.2m; MY21: Rs. 2.5b) on account of accumulation of sugar inventory which amounted to Rs. 3.7b (MY21: Rs. 298.5m; MY20: Rs. 2.2b) at end-MY22. Trade receivables stood higher at Rs. 798.9m (MY21: Rs. 617.0m; MY20: Rs. 535.5m), out of which around 44% pertained to sugar sales and the rest largely pertained to amount outstanding against sale of agri inputs. Open market sale is conducted on cash/advance basis while institutional clients are generally given credit of 7 to 21 days. The proceeds from agri input sales are settled against payments due to farmers against cane purchases during the next season, which takes about nine months to be fully settled. Advances, deposits, prepayments and other receivables stood at 473.3m (MY21: Rs. 412.7m; MY20: Rs. 321.0m). These largely pertained to advances to sugarcane growers and other suppliers and contractors. Trade and other payables decreased to Rs. 652.3m (MY21: Rs. 894.8m; MY20: 636.3m) due to decrease in sales tax payable and trade and other creditors. Despite increase in contract liabilities to Rs. 2.9b (MY21: Rs. 1.6b; MY20: Rs. 2.6b) and elevated short-term borrowings, current ratio has improved as compared to previous years. In addition, coverage of short-term borrowings via stock in trade and trade debts has remained adequate (MY21 & MY22: 1.3x; MY20: 1.0x). Cash conversion cycle has remained manageable over the years. Liquidity profile is expected to improve on the back of enhanced profitability, going forward.

Leveraged Capital Structure: Financial risk profile of the company has remained high marked by elevated leverage indicators despite injection of equity and profit retention. This is primarily due to negative capital reserve recorded in MY19 in lieu of merger, as discussed earlier in this report. In addition, accumulated losses in the early years of operations also led to equity erosion. Core equity was reported higher at Rs. 3.3b (MY21: Rs. 2.9b; MY20: Rs. 1.6b) on account of share capital issued to the tune of Rs. 300m and profit retention during the outgoing year; paid-up capital of the company stood higher at Rs. 8.6b (MY21: Rs. 8.3b; MY20: Rs. 7.2b) at end-MY22. As per terms of restructuring, the company has to inject share capital of Rs. 1.15b over a period of three years starting from MY22. The sponsor will inject Rs. 300m in the ongoing year and Rs. 550m will be injected in MY24. Meanwhile, as per company's dividend policy, the shareholders are entitled to receive all distributions, including, dividends and entitlements in form of bonus and right shares as and when declared by the company. In addition, the company may not pay dividend until certain financial requirements of lenders are satisfied.

Around three-fourth of the company's debt mix comprised long-term borrowings, which were reported lower at Rs. 11.9b (MY21: 12.8b; MY20: 14.1b) at end-MY22. Details of the long-term financing facilities and their restructuring have already been discussed in the report. Short-term borrowings stood higher at Rs. 3.8b (MY21: Rs. 753.0m; MY20: Rs. 2.9b) in line with working capital requirements. These largely entailed cash finance facilities obtained from various banks aggregating to Rs. 8.2b (MY21: Rs. 6.2b; MY20: Rs. 7.3b). The markup rates applicable during the outgoing year ranged from 1 to 9 months KIBOR plus 0.75% to 1.35% p.a. (MY21: 1 to 9 months KIBOR plus 1% to 1.35% p.a.). These facilities are secured by specific/1st exclusive registered hypothecation charge over refined sugar in bags with 20% to 25% margin, along with personal guarantees of the sponsor director of the company, and a family member of the sponsor director. The short-term facilities also included a short-term loan amounting Rs. 100m (MY21: Rs. 600m; MY20: Rs. 870m) from an associated company, JKD against which shares were issued on February 20, 2023. Gearing and debt leverage were reported higher at 4.76x (MY21: 4.68x; MY20: 10.40x) and 6.05x (MY21: 5.67x; MY20: 12.48x), respectively at end-MY22.

On March 31, 2023, the company has repaid its four quarterly installments (including one quarter due payment) amounting Rs. 678.8m in advance; outstanding long-term borrowings stood lower at Rs. 11.3b as of now. The leverage indicators are projected to improve considerably primarily on the back of augmentation in equity due to profit retention, coupled with lower short-term borrowings in tandem with offtake of sugar inventory to a large extent by the end of MY23.

Regulatory matter related to imposed penalty: The ratings have incorporated the developments in relation to penalties imposed by Competition Commission of Pakistan (CCP) on selected sugar mills and the subsequent legal proceedings initiated by the subject company. The Company has filed an appeal with the Competition Appellate Tribunal against the order dated August 13, 2021 of the CCP, in which a penalty of Rs. 615.1m was imposed on JKSML. The appeal is pending adjudication before Appellate Tribunal. Moreover, ASML, also challenged the order dated August 13, 2021, in a writ petition before the Lahore High Court (LHC). The operation of the said order has been suspended and CCP has been restrained from recovering the penalty imposed in terms of an order of the LHC dated October 2021. Given uncertainty and material effect of the outcome, VIS will continue to monitor further developments in this matter.

Environmental, Social and Governance (ESG): In pursuit of following ESG framework, the company has been committed to reduce energy and water consumption along with treating effluent water via Effluent Treatment Plant (ETP). On the directive of SEPA (Sindh Environment Protection Authority), waste water treatment plant has been constructed within the mill's premises which is treating 2400 cubic meter water per day and same is being used for agriculture purpose. Treated water is supplied to the farmers on their request and concrete water channel has been made to facilitate the neighboring farmers. SEPA is carrying out the annual inspection of ETP during the crushing season through 3rd party which collects the water for sampling.

Additionally, the company is actively pursuing dependence on renewables and alternative sources of energy while reducing emissions and preserving biodiversity. The company has a Green Areas and Tree Plantation policy in place to ensure tree plantation within the mill premises and along with rainy canal to protect environment. Furthermore, to achieve workers safety and health a company vide health and safety plan is being implemented, which majorly includes designated qualified safety person to coordinate the said plan, job safety analysis for each job and new task, regular site safety inspection and health monitoring, provision of on-safety training and enforcing safety rules. Being a private limited company, corporate governance framework provides room for improvement, majorly encompassing segregation of Chairman and CEO position and appointment of independent director on the Board.

JK Sugar Mills (Pvt.) Limited Annexure I

Financial Summary *(amounts in PKR millions)*			
BALANCE SHEET	**MY20**	**MY21**	**MY22**
Property, Plant & Equipment	16,654.0	15,723.8	14,939.7
Deferred Taxation	1,314.3	1,484.3	1,592.2
Stores, Spares. And Loose Tools	434.9	509.2	613.8
Stock-in-Trade	2,466.7	399.2	4,286.5
Trade Debts	535.5	617.0	798.9
Loan and Advances	321.0	412.7	473.3
Cash and Bank Balances	167.2	99.5	313.5
Other Assets	120.8	107.8	282.0
Total Assets	**22,014.4**	**19,353.5**	**23,299.9**
Long Term borrowings (inc. current portion)	14,103.1	12,825.0	11,906.0
Short term borrowings	2,880.1	753.0	3,829.8
Advances from Customers	2,597.4	1,644.0	2,921.1
Trade and Other Payables	636.3	894.8	652.3
Accrued Finance Cost	129.9	304.0	659.6
Other Liabilities	34.4	29.5	27.2
Total Liabilities	**20,381.2**	**16,450.1**	**19,996.0**
Paid-Up Capital	7,240.1	8,275.6	8,575.6
Tier-1 Equity	1,633.2	2,903.3	3,303.9
Total Equity	**1,633.2**	**2,903.3**	**3,303.9**
INCOME STATEMENT	**MY20**	**MY21**	**MY22**
Net Sales	15,343.7	22,485.3	23,069.9
Gross Profit	1,427.3	2,630.4	2,840.2
Finance Cost	2,299.6	1,586.2	2,386.0
Other Income	135.3	363.3	77.7
Profit Before Tax	-1,089.4	842.9	293.6
Profit After Tax	-748.2	736.3	101.5
FFO	-50.9	1,594.9	1,294.3
RATIO ANALYSIS	**MY20**	**MY21**	**MY22**
Gross Margin (%)	9.3%	11.7%	12.3%
Net Margin (%)	n.m.	3.3%	0.4%
Net Working Capital	(4,049.9)	(2,547.0)	(2,337.2)
Current Ratio (x)	0.49	0.44	0.74
FFO to Long-Term Debt (x)	n.m.	0.12	0.11
FFO to Total Debt (x)	n.m.	0.12	0.08
Debt Servicing Coverage Ratio (x)	0.87	1.21	1.10
ROAA (%)	n.m.	3.6%	0.5%
ROAE (%)	n.m.	32.5%	3.3%
Gearing (x)	10.40	4.68	4.76
Debt Leverage (x)	12.48	5.67	6.05
Inventory + Receivable/Short-term Borrowings (x)	1.0	1.3	1.3
Net Operating Cycle (Days)	70	28	46

ISSUE/ISSUER RATING SCALE & DEFINITION — Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	Annexure III
Name of Rated Entity	JK Sugar Mills (Pvt.) Limited
Sector	Sugar
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
27-Apr-23	BBB	A-2	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Due Diligence Meetings Conducted	

Name	Designation	Date
Mr. Abid Ali	CFO	Mar 7, 2023
Mr. Hamood Ilyas	Dy. Manager Accounts & Finance	